

# L. M. BICKETT COMPANY

Rubber Manufacturers



WATERTOWN  
WISCONSIN  
U. S. A.

June, 1951

## REPORT TO THE STOCKHOLDERS OF THE L. M. BICKETT COMPANY

On April 23, 1951 a dividend check was issued to all stockholders of the L. M. Bickett Company computed at the rate of 20¢ per month, and the dividend you received covered the four months of December, January, February and March.

We are now sending you a dividend check covering the months of April and May, two months, at 20¢ per share per month, and this will complete the first six months' period of our fiscal year.

Operations at the factory continue to be satisfactory, even though we are operating under government restrictions regarding the use of natural rubber and this is automatically reducing our production by twenty or twenty-five percent of what it would be if there were no restrictions.

Now that we have inaugurated a fixed schedule of dividend payments to all of our stockholders, and it is our intention, if necessary, to adjust our operating expenses so that the dividend schedule can be maintained in the future, the writer takes this opportunity to submit a history of the L. M. Bickett Company and the progress made since incorporation in 1932.

All details of the transaction that took place in 1932 were explained to and approved by the stockholders of the Bickett Rubber Products Corp. before operations were started, however, during the period of nineteen years which has elapsed since 1932 there have been a great many changes in the stockholders, and without doubt many of the present stockholders are not fully conversant with the original arrangement entered into in 1932.

In 1931, by unanimous approval of all the stockholders of the Bickett Rubber Products Corp., arrangements were entered into to transfer the business to Anderson, Indiana and there to operate under more advantageous conditions, particularly so regarding our markets for finished products and the elimination of the expense of maintaining a warehouse in Buffalo, New York and a warehouse in Pittsburgh, Pennsylvania.

The Indiana parties agreed to invest \$100,000 in payment for a one-fourth interest in the business provided the transfer was made, and as they were all reputable businessmen they would have fulfilled their obligation if it had not been for the fact that the bank at Anderson was forced to close in October, 1931 before they had paid for their stock subscription in the Bickett Rubber Products Corp., and the closing of the bank made it impossible for them to fulfil their agreement.

2.

The Bickett Rubber Products Corp. of Wisconsin had transferred to Indiana assets representing a total value of approximately \$200,000. Moving expenses amounted to approximately \$40,000, and this expenditure absorbed practically all of the working capital of the Bickett Rubber Products Corp.

The Indiana corporation was forced into bankruptcy and the Wisconsin corporation was compelled to put in a claim as a creditor of the Indiana corporation, however, about twelve months later when the property was sold, due primarily to the depression which was then prevailing throughout the country, at the Receiver's sale the amount received did not pay all creditors' claims and as the result the Wisconsin corporation lost its entire equity in the assets which had been transferred to Indiana.

There remained at Watertown a building and some equipment covered by a mortgage and bond issue representing a total of \$49,000. In addition there were open creditors' obligations to the amount of \$23,000, making a total of approximately \$72,000. The proposition was entered into with the Receiver of the Indiana corporation whereby if payment of this indebtedness was guaranteed the Receiver would give a quitclaim deed to the property and assets remaining at Watertown, and after considerable legal work and considerable expense such an agreement was finally entered into.

After securing the quitclaim deed from the Receiver of the Indiana corporation by assuming the obligation of paying the \$72,000 of obligations, then the L. M. Bickett Company was organized for the purpose of operating the Watertown plant.

Before starting operations it was first necessary to secure some working capital, and not one of the stockholders of the old Bickett Rubber Products Corp. was even requested to advance any capital to the L. M. Bickett Company, but instead L. M. Bickett personally arranged to borrow from The Falk Corporation of Milwaukee \$17,000, and as collateral transferred to The Falk Corporation a life insurance policy and individually signed a note obligation to The Falk Corporation for the capital they advanced.

Before operations could be resumed it was necessary to purchase \$14,000 worth of equipment to replace some of the equipment which had been transferred to Anderson, Indiana, and after paying for this equipment, also the installation, the L. M. Bickett Company started operations in July, 1932 with a working capital of less than \$3,000.

L. M. Bickett Company stock was issued to all the old stockholders of the Bickett Rubber Products Corp. share for share with regard to preferred stock, and one share of L. M. Bickett Company stock for each four shares of Bickett Rubber Products Corp. common stock, thereby continuing the interest of the old stockholders of the Bickett Rubber Products Corp. in the L. M. Bickett Company.

During the next five years, up to '37, the United States suffered from the worst depression period ever experienced in this country. Many manufacturers and business firms went bankrupt, and this condition naturally created a greater obstacle in the operations of the L. M. Bickett Company, operating with such a small capital and heavy obligations.

3.

The leasing arrangement entered into provided for the payment of monthly rental computed at 7½% of the net sales of the L. M. Bickett Company with no minimum guarantee and no maximum limit, in other words, the company paid rentals in accordance with its ability to pay and after it actually had the money received from sales.

L. M. Bickett personally agreed to accept a salary determined on a percentage basis at the same rate as paid for the property, namely 7½% of the net sales of the L. M. Bickett Company. It might be well to explain that the net sales of the L. M. Bickett Company were computed by deducting from the gross sales various charges such as selling expenses, advertising, delivery allowance, traveling, returned goods and bad debts; for example, \$10,000 gross sales would average approximately \$8,000 net sales, and the L. M. Bickett Company secured the benefit of these deductions.

In 1935 L. M. Bickett secured a patent on a ventilated type of seat cushion which was given the name "Respirator", and five days after this patent was issued and made public an offer of \$100,000 was made for the transfer of this patent to another rubber company. This offer was rejected and instead the patent was transferred to the L. M. Bickett Company for exactly the amount of lawyers' expenses in securing the patent, which was \$258. This patent was never capitalized on the books of the L. M. Bickett Company except at the actual cost of securing the patent, namely \$258. At this time, sixteen years after the patent was issued, the statement is made that the manufacture of this cushion has been the principal factor in the growth of the L. M. Bickett Company, and was also a contributing factor in the development of other products which were sold to the same customers who purchased Respirator cushions.

Normally, patents are capitalized in accordance with their anticipated value and potentially profitable sales, and many large manufacturing plants list their patent values at hundreds of thousands of dollars.

The general practice is that patents developed by salaried employees are the property of the company, however, when patents are developed by employees who work on a commission basis, then patents are the property of the employee and they have the right to dispose of their patents as they desire, and this would have been the case with the Respirator cushion if L. M. Bickett had so desired.

Prior to the development of the "Respirator" patent the L. M. Bickett Company had contracted with an inventor in Chicago to manufacture a cushion known as the "Cushion-aire", and under a contract executed with this inventor the L. M. Bickett Company manufactured and sold Cushion-aire cushions for several years, paying a royalty of 50¢ per cushion on all cushions sold. When the Respirator cushion was patented the royalty contract referred to was cancelled. If a similar contract had been executed for the Respirator cushion at the same royalty rate and applied on all Respirator cushions manufactured since 1935, the royalty payment during the sixteen-year period would have amounted to several hundred thousand dollars. However, as no royalties were paid, the company secured the benefit by a corresponding reduction in costs of manufacture.

4.

During the year 1926 The Falk Corporation of Milwaukee installed a 300 h.p. Diesel engine to furnish power for the Bickett Rubber Products Corp. The agreed upon price of this Diesel engine was \$64,000 plus the cost of the power house and the electrical connections, representing a grand total of approximately \$72,000.

The arrangements entered into between the Bickett Rubber Products Corp. and The Falk Corporation provided for The Falk Corporation to pay all costs of operation including fuel oil and lubricating oil. The Bickett Rubber Products Corp. was to pay for any labor necessary to operate the Diesel engine, and in addition the Bickett Rubber Products Corp. paid  $3\frac{1}{2}$ ¢ per kilowatt for all electricity produced by the engine. From this monthly payment The Falk Corporation would deduct the cost of operation, including insurance on the equipment, and the difference between the amount paid by the Bickett Rubber Products Corp. and the charge submitted by The Falk Corporation applied on their original agreed upon purchase price, and in this manner the Bickett Rubber Products Corp. each month acquired an additional equity in the power house installation.

During the period of operation from 1926 to August, 1931 the Bickett Rubber Products Corp. acquired an equity of approximately \$40,000 in the Diesel engine equipment and power house, therefore, when operations ended on August 1, 1931 The Falk Corporation had an unpaid balance of approximately \$32,000 in the Diesel engine plant. It was because of the fact that The Falk Corporation had this interest in the Bickett Rubber Products Corp., also that in accordance with the original agreement their only method of securing payment on the liquidation of their investment was through operations of the Diesel engine, likewise by the plant of the Bickett Rubber Products Corp., that they were interested in having operations resumed so that the monthly payments for power could be continued until their investment was completely liquidated.

Information outlined in the preceding paragraphs explains why The Falk Corporation was interested in having operations resumed in the plant, also why they eventually agreed to finance the L. M. Bickett Company.

As the L. M. Bickett Company would not require the full capacity of the Diesel engine and payments for electricity would be correspondingly lower than what had prevailed during operations for the Bickett Rubber Products Corp., in lieu of making monthly payments based on the consumption of electricity, arrangements were made to pay The Falk Corporation  $7\frac{1}{2}$ % of the net sales of the L. M. Bickett Company, the same as applied for the use of the buildings and equipment belonging to the Bickett Rubber Products Corp., the L. M. Bickett Company to pay all costs of operation.

For three years after starting operations the L. M. Bickett Company computed rentals for the buildings and Diesel engine on the basis of  $7\frac{1}{2}$ % of the net sales, however, although each year production was gradually increasing, and likewise the rental payment for the engine, also the buildings, it was found that the payment of these rentals was interfering with the development of the company.

In view of the fact that the combined stock interests of The Falk Corporation and individuals associated with the Bickett Rubber Products Corp. represented a total of approximately 90% of all the outstanding stock, an agreement was entered into whereby although the 7½% rental would continue to be in effect, until the company built up its financial resources and increased production, payment on rentals would be on the basis of \$200 per month with the understanding that if the company prospered, rental payments would be adjusted equal to what the charges would have been if the 7½% rentals had been paid. The reduction in rental payments was of great benefit to the company and made it possible to handle additional business and develop more rapidly.

During the year 1938 The Falk Corporation employed a firm of accountants to make an audit of the books of the L. M. Bickett Company to survey and analyze future possibilities of the L. M. Bickett Company, and it was very disappointing when these accountants made the report to learn that they had recommended to The Falk Corporation cessation of operations and liquidation of the L. M. Bickett Company, and orders were definitely given to L. M. Bickett by The Falk Corporation to cease operations and liquidate completely.

L. M. Bickett did not comply with instructions issued by The Falk Corporation and this led to a disagreement which finally resulted in an ultimatum on the part of The Falk Corporation to L. M. Bickett that he assume the obligation of purchasing the interest of The Falk Corporation, and at the same time to arrange to purchase the Watertown interests for their equity in the buildings and equipment after allowing for the credit due L. M. Bickett for the liquidation of old debts, also payments he had personally made as an endorser on the mortgage and bond.

After concluding arrangements with The Falk Corporation covering the transfer of their interests to L. M. Bickett for \$20,000, an agreement was made with the Watertown interests to pay them \$18,000 additional for their equity in the buildings and equipment, together with all the L. M. Bickett Company stock which had been issued to them when the lease was drawn. This note for \$18,000 was payable within a period of three years' time at the rate of \$6,000 per year.

After executing these two purchase contracts you will appreciate the fact that L. M. Bickett had personally assumed an obligation of \$38,000, not from choice but under compulsion, and primarily because of the adverse report made by the auditors employed by The Falk Corporation.

The Watertown parties agreed to sign over to L. M. Bickett when the note was paid, their interest in buildings and equipment, lease covering buildings and equipment with the L. M. Bickett Company, the amount due them as rentals as represented by the difference between the \$200 per month rental which had been paid and the 7½% rental provided for in lease, also their entire stock interest in the L. M. Bickett Company.

The Falk Corporation agreed to sign over to L. M. Bickett when the \$20,000 note had been paid title to the Diesel engine, all their stock interest in the L. M. Bickett Company, also their claim for unpaid rentals as represented by the difference between the \$200 payment and the true 7½% rate of rental as provided for in lease.

6.

The accrued unpaid rentals amounted to approximately \$73,000, however, L. M. Bickett voluntarily cancelled all of this obligation after it had been transferred to him and the L. M. Bickett Company received the full benefit. He also cancelled the 7½% Diesel engine rental appropriation, after which the company paid rental only on the buildings and equipment at the agreed upon rate of 7½%, and L. M. Bickett's personal salary continued at 7½% as per the original agreement.

L. M. Bickett also transferred to the L. M. Bickett Company title to the Diesel engine and the generator, however, he retained title to the building in which the Diesel engine and electrical generator was installed and still remains.

The Diesel engine is no longer used as outside power can be purchased cheaper than produced in the Diesel engine. However, it is possible the Diesel engine and electrical equipment has a salvage value of twelve or fifteen thousand dollars and when this equipment is disposed of the L. M. Bickett Company will receive all the returns.

All note obligations issued by L. M. Bickett in favor of The Falk Corporation and owners of the land, buildings and equipment were paid according to agreement, and all L. M. Bickett Company stock covered by these two agreements was transferred to L. M. Bickett personally, and after these stock transfers had been completed L. M. Bickett owned 1979 shares of Class-A stock out of a total of 1998 shares issued, also 2139 shares of Class-B stock out of a total of 2761 shares issued.

In the year 1941, after signing notes and the agreement to purchase real estate and personal property, and before complete payment on obligations had been made, L. M. Bickett expended approximately \$10,000 for additions to the buildings to provide increased manufacturing facilities, also warehouse. As previously stated, these additions were paid for entirely by L. M. Bickett personally and not by the L. M. Bickett Company. The rental rate was not increased, so you will recognize the fact that the L. M. Bickett Company benefited from these additions at no extra rental cost.

In 1946 another addition was constructed at a cost of approximately \$12,000, and this was paid for by L. M. Bickett personally and there was no increase in the rental rate.

We have now covered all the financial and personal property transactions which took place prior to 1945 and with the exception of certain stock transfers, which will be outlined later, you now have a complete story of the transactions, which represent the first stage in the history of the company.